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BEFORE THE

COMMITTEE ON POST OFFICE AND CIVIL SERVICE
U.S. HOUSE OF REPRESENTATIVES

ON

NEW RETIREMENT SYSTEM FOR FEDERAL EMPLOYEES SUBJECT TO CIVIL SERVICE

APRIL 23, 1985

My name is Kenneth T. Blaylock. I am the National President of the American Federation of Government Employees (AFGE) which represents 700,000 Federal employees nationwide. AFGE wants to thank the Committee for providing us with this opportunity to present our views on what very well could be the most important issue affecting the future of the personnel system in the Federal government.

In considering the design of a supplemental retirement plan, we encourage the Committee to take a well-rounded perspective on the functions a retirement plan serves. From the viewpoint of the employee, retirement plans serve the objective of maintaining their income in old age. The adequacy of retirement plans are judged by their capacity to guarantee income security in their retirement years.

From the viewpoint of society, retirement has come to be viewed as a right earned through past service. Employees are viewed as contributing to society and their employer during their working years and in return society and their employer are obligated to ensure this individual an income sufficient to live in dignity upon completion of a full career.

From the viewpoint of a compensation system, retirement is seen as one part of a total compensation package. Retirement benefits are seen simply as deferred compensation. In the private sector, it is commonplace through the collective bargaining process to determine the appropriate mix of pay and other current benefits vis-a-vis deferred compensation. In the Federal sector, employees are denied any direct determination of the appropriate mix in their compensation package. Therefore, it is incumbent upon this Committee not to isolate retirement from the remainder of the Federal employee compensation package. This is especially relevant in making Federal/private comparisons where the non-retirement components of Federal employee compensation are so clearly and dramatically behind their private sector counterparts.

As a personnel tool, retirement plans will dramatically impact the type of employees an employer will attract and retain. As a matter of fact, the passage of the initial CSRS in 1920 was seen primarily as a solution to the wide spread practice of keeping elderly, non-productive employees in active employment roles. From this perspective, retirement plans must balance inducements to maintain continuity of employment and retention of valuable employees with the need for injection of "new blood" and fresh ideas.

From the viewpoint of management, a retirement plan, if it is not to create morale problems, must be perceived as being fair and equitable for employees as a whole and between different groups of employees. This concern is especially relevant given the fact that we will be dealing with two separate retirement plans for Federal employees.

Our members are desperately concerned that the new plan will provide a precedent for driving down the provisions in their retirement plan. We must not allow this to happen. As a condition for acting on this plan this year, the Committee should seek to get an understanding from the Administration that the existing CSRS be "taken off the table" in regard to future budget actions.

Our new members are equally concerned that their retirement will be inferior to retirement for employees who were hired before them and this needs to be addressed.

These sets of concerns are what drive the recommendations we make here today. In March of 1984, we came before this Committee and testified to the two principles which continue to guide us in the process of designing the new supplemental system. First, the supplemental system (with Social Security) when taken as a whole should provide comparable benefit levels as the existing CSRS.

Fairness and equity between current and new employees dictate that this be the case. Assurances given by Congressional members during Social Security debate indicate this should be the case. Total compensation comparisons (for example by Hay Associates) show that from a compensation perspective it would be folly if this were not the case. Recruiting and retention problems would be drastically worsened if this were not the case.

We fully recognize that the structure of benefits between the two systems would differ and that many difficult questions still remain on how the trade-offs would need to be handled. But without agreement on this basic principle, the trade-offs are not difficult--they are impossible.

The Committee should recognize that this is not a status quo solution. Federal employees never again will be able to independently draw retirement benefits from both Social Security and CSRS. This is a diminution of the potential retirement benefits available to Federal employees. Given the Social Security amendments relating to current employees and political reality, we and our new members can live with this diminution, but trying to cut aggregate benefits even further would be punitive and contravene all of the functions of retirement we previously listed.

Our second guiding principle parallels our first--employees mandatory contributions should remain the same between the two systems. Basically, we urge that the difference between OASDI contributions (currently 5.7% moving to 6.2% in 1990) and CSRS contributions (7%) be a required contribution to the new system. Our rationale for this position directly parallels our previous comments. It is just common sense that new and old employees in the same circumstances should have the same take-home pay. The additional contribution will also offset part of the cost of the new system and aid in its financing.

We urge the Committee to keep the new system under the existing CSRS framework. This would avoid dual administrative expenses, dual reporting requirements, etc. In addition, all Federal employees should have a common interest in a common retirement system. It would also alleviate fears of current employees in regard to the financing of their retirement.

In regard to the composition of the new retirement plan, we think the evolving consensus around a three-tier plan of Social Security, a defined benefit plan and a voluntary contribution plan with tax benefits comparable to the private sector is basically sound, but we believe that the basic function of a retirement plan for the employee of providing income security in old age dictates that the defined benefit aspect of the plan should be emphasized vis-a-vis the contribution plan.

The voluntary contribution plan would be a new component of federal retirement and would be a new expense. A voluntary contribution plan shifts the risk of poor economic performance from the employer to the employee. The fact that under certain economic conditions employees "could make it big" does not help employees whose retirement is wiped out by adverse economic trends.

Depending on final design, the SS system will most likely shift retirement benefits toward lower income individuals, thus a voluntary contribution plan would help higher paid individuals who have more discretionary income provide for their retirement needs. But, if the contribution component of the new system threatens the adequacy of the defined benefit plan, we are relegating the GS-4's and 5's with little descretionary income to contribute to a thrift plan during their working career to a life of poverty in old age.

Given the existence of a voluntary contribution plan, we think the add-on approach should be the preferred method of integration.

The add-on approach would keep the full SS tilt and most adequately protect those individuals least able to participate in the contribution plan. These are also the individuals who would be least advantaged by any tax advantages tied to the contribution plan even if they did participate because they would be in lower tax brackets. Finally, any subsequent changes in Social Security would not create technical problems of integration with the add-on approach.

We also strongly believe that the defined benefit formula should be structured in such a way so as to reward long-termemployees. Social Security and a contribution plan will significantly increase portability within the system, and it seems desirable, both on personnel grounds and on equity grounds, to reward long-term employees in the defined benefit component of the retirement package. There is a need to reward these long-term employees while keeping in mind the desirability of increased portability. For example, the AFGE has been supportive of HR 680, a bill designed to provide that National Transportation Safety Board employees, upon application for their retirement benefits, have the option to count, in their years of eligibility, those credits which they accrued under the Federal Railroad Retirement System in lieu of credit toward railroad retirement. We also urge that the Congress allow the employees of the Federal Railroad Administration and the Interstate Commerce Commission to exercise this same option.

We also think the Committee should recognize that one of the major advances in the history of this country for the average working person has been the ability to retire and enjoy his or her life for a few years before their death. We do not think the clock should be turned back for other Americans or for Federal employees in this regard. We do not think that the way to cut retirement costs is to require employees to work until the day they are fitted for a coffin.

Similarly, COLA protection is important if retiree's purchasing power is to be protected. In old age, in particular, inflation can wreck a cruel penalty to those on fixed income with no capacity to engage in paid employment.

Also, unlike any other employer, the Federal government through its fiscal and monetary policies is directly responsible for inflation. It seems only fair that the Federal government as an employer should protect its retirees (especially elderly retirees) from the consequences of its own actions.

Once a COLA provision is designed, we would recommend that it be legally linked to other indexed programs, such as Social Security. This will help insure that Federal retirees will not be singled out for COLA cuts in future budget battles.

One area toward which we encourage the Committee to pay special attention is the retirement provisions for law enforcement and air traffic controllers. These positions require certain physical capabilities to perform their job. The retirement provisions in the existing CSRS reflect these job requirements. We feel that the current provisions must be paralleled in the supplemental retirement plan. We also encourage the Committee to do a thorough review of federal jobs which have similar requirements to determine if they should have similar retirement provisions.

The financing provisions should be established so as to keep agency budget and personnel directors neutral in regard to new versus old employees. At a time of tight agency budgets, we think it is important not to build into the financing mechanism any unintended incentives for replacing one group of employees with another. Outside of the agency contributions, we think a direct transfer mechanism should be established which will avoid the necessity of annual appropriations.

Finally, let us note that this entire process is not aided by the caterwauling of impending doom by the critics of the existing system. Either by ignorance or design they continually distort the issues facing this Committee. They speak as though the unfunded liability directly relates to current year budget costs instead of merely being an actuarial concept. They compare CSRS to staff retirement plans ignoring SS and capital accumulation plans. They talk as though all Federal employees retire at age 55 without mentioning the thirty-year service requirement. The lies and distortions are legion. We hope the members of this Committee will take the lead with your colleagues debunking this propaganda and clarifying the real issues in this difficult process of retirement design.

Thank you.